



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

**Island County Fire Protection District
No. 1**

(Camano Island Fire and Rescue)

For the period January 1, 2012 through December 31, 2013

Published December 31, 2014

Report No. 1013372





Washington State Auditor Troy Kelley

December 31, 2014

Board of Commissioners
Camano Island Fire and Rescue
Camano Island, Washington

Report on Financial Statements

Please find attached our report on the Camano Island Fire and Rescue's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Camano Island Fire and Rescue
Island County
January 1, 2012 through December 31, 2013**

Board of Commissioners
Camano Island Fire and Rescue
Camano Island, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Camano Island Fire and Rescue, Island County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 7, 2014.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 7, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Camano Island Fire and Rescue Island County January 1, 2012 through December 31, 2013

Board of Commissioners
Camano Island Fire and Rescue
Camano Island, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Camano Island Fire and Rescue, Island County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Camano Island Fire and Rescue has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Camano Island Fire and Rescue, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Camano Island Fire and Rescue, as of December 31,

2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

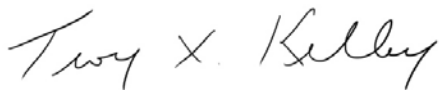
Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 7, 2014

FINANCIAL SECTION

Camano Island Fire and Rescue Island County January 1, 2012 through December 31, 2013

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
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Schedule of Liabilities – 2013
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Island County Fire District #1

MCAG #: 1113

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2013

1 Of 2

BARS CODE		Total For All Funds Total Amount	001 - Current Expense Actual Amount	201 - Bond Fund Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	69,958.01	0.00	63,582.04
308.80	Unreserved	3,604,907.41	3,522,201.18	0.00
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Operating Revenues:				
310	Taxes	5,352,051.12	4,706,083.83	645,967.29
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	6,737.00	6,737.00	0.00
340	Charges for Goods and Services	563,066.88	563,066.88	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	52,039.32	29,461.90	56.47
	Total Operating Revenues	5,973,894.32	5,305,349.61	646,023.76
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	4,976,096.08	4,976,084.84	2.83
530	Physical Environment	0.00	0.00	0.00
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
	Operating Expenditures	4,976,096.08	4,976,084.84	2.83
	Net Operating Increase (Decrease)	997,798.24	329,264.77	646,020.93
Non Operating Revenues:				
391-393	Debt Proceeds	0.00	0.00	0.00
37X,380,395,398	Other Financing Sources	146,284.05	76,337.05	0.00
397	Transfers-In	211,966.19	2,246.28	10,000.00
	Total Non Operating Revenues	358,250.24	78,583.33	10,000.00
Non Operating Expenditures				
591-593	Debt Service	774,557.50	0.00	638,137.50
594-595	Capital Expenditures	30,910.31	0.00	601.86
580, 596, 599	Other Financing uses	(26,899.62)	(26,899.62)	0.00
597	Transfers-out	211,966.19	146,420.00	63,299.91
	Total Non Operating Expenditures	990,534.38	119,520.38	702,039.27
	Increase (Decrease) in Cash and investments	365,514.10	288,327.72	(46,018.34)
Ending Cash and Investments				
508.10	Reserved	224,563.70	207,000.00	17,563.70
508.80	Unreserved	3,815,815.82	3,603,528.90	0.00

The accompanying notes are an integral part of this Statement

Island County Fire District #1

MCAG #: 1113

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2013

2 Of 2

BARS CODE		301 - Capital Fund		
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	6,375.97	0.00	0.00
308.80	Unreserved	82,706.23	0.00	0.00
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Operating Revenues:				
310	Taxes	0.00	0.00	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	0.00	0.00
340	Charges for Goods and Services	0.00	0.00	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	22,520.95	0.00	0.00
Total Operating Revenues		22,520.95	0.00	0.00
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	8.41	0.00	0.00
530	Physical Environment	0.00	0.00	0.00
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
Operating Expenditures		8.41	0.00	0.00
Net Operating Increase (Decrease)		22,512.54	0.00	0.00
Non Operating Revenues:				
391-393	Debt Proceeds	0.00	0.00	0.00
37X,380,395,398	Other Financing Sources	69,947.00	0.00	0.00
397	Transfers-In	199,719.91	0.00	0.00
Total Non Operating Revenues		269,666.91	0.00	0.00
Non Operating Expenditures				
591-593	Debt Service	136,420.00	0.00	0.00
594-595	Capital Expenditures	30,308.45	0.00	0.00
580, 596, 599	Other Financing uses	0.00	0.00	0.00
597	Transfers-out	2,246.28	0.00	0.00
Total Non Operating Expenditures		168,974.73	0.00	0.00
Increase (Decrease) in Cash and investments		123,204.72	0.00	0.00
Ending Cash and Investments				
508.10	Reserved	0.00	0.00	0.00
508.80	Unreserved	212,286.92	0.00	0.00

The accompanying notes are an integral part of this Statement

Island County Fire District #1

MCAG #: 1113

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2012

1 Of 2

BARS CODE		Total For All Funds Total Amount	001 - Current Expense Actual Amount	201 - Bond Fund Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	499,891.93	0.00	4,181.01
308.80	Unreserved	3,387,347.68	3,387,347.68	0.00
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Operating Revenues:				
310	Taxes	5,313,100.92	4,707,854.91	605,246.01
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	106,628.00	106,628.00	0.00
340	Charges for Goods and Services	913,969.98	913,969.98	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	134,273.01	27,596.61	64,471.08
Total Operating Revenues		6,467,971.91	5,756,049.50	669,717.09
Operating Expenditures				
510	General Government	667,259.60	667,256.04	3.56
520	Public Safety	4,729,144.14	4,729,144.14	0.00
530	Physical Environment	0.00	0.00	0.00
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
Operating Expenditures		5,396,403.74	5,396,400.18	3.56
Net Operating Increase (Decrease)		1,071,568.17	359,649.32	669,713.53
Non Operating Revenues:				
391-393	Debt Proceeds	500,000.00	0.00	500,000.00
37X,380,395,398	Other Financing Sources	147,445.15	105,586.57	0.00
397	Transfers-In	836,713.67	1,100.00	0.00
Total Non Operating Revenues		1,484,158.82	106,686.57	500,000.00
Non Operating Expenditures				
591-593	Debt Service	778,996.22	0.00	609,212.50
594-595	Capital Expenditures	1,156,522.57	0.00	0.00
580, 596, 599	Other Financing uses	(4,131.28)	(4,131.28)	0.00
597	Transfers-out	836,713.67	335,613.67	501,100.00
Total Non Operating Expenditures		2,768,101.18	331,482.39	1,110,312.50
Increase (Decrease) in Cash and investments		(212,374.19)	134,853.50	59,401.03
Ending Cash and Investments				
508.10	Reserved	69,958.01	0.00	63,582.04
508.80	Unreserved	3,604,907.41	3,522,201.18	0.00

The accompanying notes are an integral part of this Statement

Island County Fire District #1

MCAG #: 1113

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2012

2 Of 2

BARS CODE		301 - Capital Fund		
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	495,710.92	0.00	0.00
308.80	Unreserved	0.00	0.00	0.00
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Operating Revenues:				
310	Taxes	0.00	0.00	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	0.00	0.00
340	Charges for Goods and Services	0.00	0.00	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	42,205.32	0.00	0.00
Total Operating Revenues		42,205.32	0.00	0.00
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	0.00	0.00	0.00
530	Physical Environment	0.00	0.00	0.00
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
Operating Expenditures		0.00	0.00	0.00
Net Operating Increase (Decrease)		42,205.32	0.00	0.00
Non Operating Revenues:				
391-393	Debt Proceeds	0.00	0.00	0.00
37X,380,395,398	Other Financing Sources	41,858.58	0.00	0.00
397	Transfers-In	835,613.67	0.00	0.00
Total Non Operating Revenues		877,472.25	0.00	0.00
Non Operating Expenditures				
591-593	Debt Service	169,783.72	0.00	0.00
594-595	Capital Expenditures	1,156,522.57	0.00	0.00
580, 596, 599	Other Financing uses	0.00	0.00	0.00
597	Transfers-out	0.00	0.00	0.00
Total Non Operating Expenditures		1,326,306.29	0.00	0.00
Increase (Decrease) in Cash and investments		(406,628.72)	0.00	0.00
Ending Cash and Investments				
508.10	Reserved	6,375.97	0.00	0.00
508.80	Unreserved	82,706.23	0.00	0.00

The accompanying notes are an integral part of this Statement

**Island County Fire District #1
MCAG #1113**

**Notes to the Financial Statements
For the Year Ending December 31, 2013**

These notes are an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

Island County Fire District #1 reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Island County Fire District #1 was incorporated on January 1, 1992 and operates under the laws of the State of Washington applicable to a Fire District. The District is a special purpose government and provides fire protection and emergency medical services. The District uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The District adopts Annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - Current Expense			
Current Expense	\$ 5,570,573	\$ 5,365,491	\$ 205,082
Reserve		48	(48)
Trust	2,000	159	1,841
Medical Expense	639,096	608,103	30,993
Total 001 - Current Expense	\$ 6,211,669	\$ 5,973,802	\$ 237,867
201 - Bond Fund	\$ 638,138	\$ 702,042	\$ (63,904)
301 - Capital Fund	\$ 2,000	\$ 159	\$ 1,841

Budgeted amounts are authorized to be transferred between departments, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

D. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various fund or fund(s)

E. Deposits

The District deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments See Note 2, *Investments*.

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1000 and an estimated useful life in excess of 1 year. The capital assets of the District are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave for non-union employees is earned at a rate dependent upon years of service and hours worked. Vacation leave may be accumulated up to 220 hours, unless specified in a formal working agreement, and is payable upon separation or retirement.

Vacation and holiday leave for union employees may be accumulated up to 312 and 120 hours respectively. Accrued vacation balances include holiday leave. Accrued vacation and holiday are paid out upon separation or retirement. Vacation leave for union employees is earned according to the union's contractual agreement. Vacation leave is based upon years of service.

Sick leave for non-union employees is earned at a rate dependent upon hours worked and may be accumulated up to 400 hours, unless specified in a formal working agreement.

Sick leave for non-union employees who work under an individual work agreement may be accumulated up to 1080 hours. Upon separation employees receive payment for one-third of their unused sick leave.

Sick leave for union employees is earned according to the union's contractual agreement and is based upon hours worked. Union employees can accrue up to 1080 hours of sick leave. They can cash out one-third of their accrued sick leave upon retirement.

Sick leave may be used for paid time off for injury or illness of the employee and/or any dependent.

The District's estimated liability for sick and vacation leave termination benefits on December 31, 2013 was \$332,588.

I. Long-Term Debt See Note 4, *Debt Service Requirements*.

J. Other Financing Sources or Uses

The District's *Other Financing Sources or Uses* consist of cost-basis reimbursement of parts sold in repair shop operations, Cobra payments received, rents from District property, and gains on sale of District Property

K. Risk Management

Policy holders pay an annual premium to Volunteer Fireman's Insurance Services (VFIS), in lieu of a membership assessment. VFIS is responsible for payment of all covered causes of loss against the District above the stated deductible, if any. Portable equipment and real and personal property are covered at either actual cash value, replacement cost or guaranteed replacement cost. VFIS provides general, automobile and management liability on an "occurrence" and/or "claims-made" basis, subject to a "follow form" umbrella, if elected. The most common sub-limit of liability starts at \$1M, while aggregate limits may reach as high as \$20M.

On January 1, 2011 the District changed their medical insurance to a self insured plan to try to combat the rising costs of healthcare. The District opted to contract with Coastal Administrative Service Inc. as a third party administrator to provide benefits that are a part of the First Choice Health Network and self-insured dental. C.A.S provides claim adjudication for all claims and is HIPPA complaint. Reinsurance and stop-loss contracts are in place to protect the District from large claims. This plan provides medical, dental and vision to all full time employees. At this time the District covers 100% of the cost. Based on the number of employees, the District transfers a set amount of money each month into a separate healthcare fund. Only medical, dental, and vision related expenses are paid out of this fund.

L. Reserved Fund Balance

Managerial Fund 002 (Reserve) maintains a restricted fund balance of \$207,000 as per board resolutions.

Bond Fund 201 is wholly reserved due to debt service covenants.

Note 2 - Investments

The District's investments are either insured, registered, or held by the District or its agent in the District's name.

Investments are presented at fair market value.

Investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	①	②	③
	District's own investments	Investments held by the District as an agent for other local governments, individuals or private organizations.	<u>Total</u>
L.G.I.P.	\$ 3,540,234		\$ 3,540,234

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's EMS levy for the year 2013 was \$0.50 per \$1,000 on an assessed valuation of \$2,998,111,707 for a total regular levy of \$1,499,055.85.

The District's Fire levy for the year 2013 was \$1.1219786203 per \$1,000 on an assessed valuation of \$2,809,225,232 for a total regular levy of \$3,151,890.65.

The District's Bond levy for the year 2013 was \$0.2327085235 per \$1,000 on an assessed valuation of \$2,759,807,421 for a total regular levy of \$642,230.71.

Note 4 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2013.

The debt service requirements for general obligation bonds, revenue bonds and other debt, including both principle and interest, are as follows:

Year	General	Other	Total
	Obligation Bonds	Debt	Debt
2013	\$686,168	\$88,390	\$774,558
2014	\$718,538	\$88,390	\$806,928
2015	\$744,106	\$37,434	\$781,540
2016	\$777,480	\$37,434	\$814,914
2017	\$813,643	\$0	\$813,643
2018	\$847,743	0	\$847,743
2019-2023	\$4,801,058	\$0	\$4,801,058
2024-2028	<u>\$5,071,390</u>	<u>\$0</u>	<u>\$5,071,390</u>
<i>Totals</i>	<u>\$14,460,126</u>	<u>\$251,648</u>	<u>\$14,711,774</u>

Note 5 - Pension Plans

Substantially of the District's full-time and qualifying part-time employees participate in LEOFF 2, administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

Note 6 - Other Disclosures

Terry's Corner Fire Station

In November 2010 the District was awarded a grant in the amount of \$449,069 from the U.S. Department of Homeland Security Federal Emergency Management Agency (FEMA) through the State of Washington for seismic upgrade capital improvements to the Terry's Corner Fire Station.

In November 2011, FEMA revoked the grant. Upon the District's appeal of the revocation, FEMA offered a revised grant award of \$96,244. The District submitted a second level appeal for the remainder of the grant which was supported by the State of Washington Department of Emergency Management, the granting agency. FEMA upon review of the second level appeal, reversed its prior agency decision and reinstated the entire amount of the original grant in the amount of \$449,069.

The District incurred eligible cost reimbursements under this grant of \$155,256 in 2012 and \$383,606 in 2011. In 2012 the District issued a non-voted bond of \$500,000. These funds were used to complete the capital improvements to the Terry's Corner Fire Station while the FEMA grant was in appeal. Semi-annual principal and interest payments of \$24,015 commenced on June 1, 2012. Due to the successful second level appeal, the District paid off the entire remaining balance of the non-voted bond bridge loan in January 2014.

The Terry's Corner Fire Station seismic upgrade and remodel was completed and the District re-housed personnel in the Station on March 31, 2012. The station is now fully operational.

Interlocal Agreements

The District has the following Interlocal Agreements in operation at the end of 2013.

- The District has an ILA for mutual aid emergency response and special rescue teams with Snohomish County Fire Agencies.
- The District has an ILA for fire investigation services with Snohomish County and the Snohomish County Fire Marshal's Office.
- The District has an ILA with the Northwest Incident Management team for assistance if needed to provide a management overhead team in large scale incidents.

Related Party Disclosures

The District purchases auto parts, shop consumables, and inventory from Stanwood Auto Parts, a local supplier. Stanwood Auto Parts is owned by District Commissioner Mike Hamel. Expenditures are monitored, and capped at a maximum of \$1,500.00 per month. **Commissioner Hamel retired from the Board on December 31, 2013 so this will not be an on-going issue.**

Litigation

The District has been named in a lawsuit regarding a personal injury that occurred in 2009 while a district employee was attending paramedic training in Seattle. The District has been named in addition to its employee, the city of Seattle (Seattle Fire Department) and the State of Washington (University of Washington). The basis of the lawsuit is that the District's employee was partnered in a self-defense class with another student who was injured during the training. The case has been turned over to the District's insurance carrier for defense with a potential trial date pending in 2015. The District at this point considers the case to be without merit and has requested representation to defend against the lawsuit. The attorney of record is Rick S. Lowell of Magnuson and Lowell P. S., 8201 164th Avenue NE STE. 200 Redmond, WA 98052.

Fund Presentation

The 2012 Schedule C4 filed with the state was amended in 2014 to correct several errors in fund balance between funds. This correction did not affect the net overall fund balance for the District, but the changes were made so that subsequent reports would agree to the reports filed with the state previously.

Island County Fire Protection District #1
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDING DECEMBER 31, 2012
MCAG #1113

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Island County Fire Protection District #1 (the District)reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The District was incorporated on January 1, 1992 and operates under the laws of the state of Washington applicable to a fire district. The District is a special purpose government and provides fire protection services and emergency medical services. The District uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The District adopts annual appropriated budgets at the fund level for all funds. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Total General Fund	\$ 6,345,519	\$ 6,328,187	\$ 17,331
Bond Fund	\$ 1,114,213	\$ 1,110,316	\$ 3,896
Capital Fund	\$ 1,404,337	\$ 1,324,948	\$ 79,388

Budgeted amounts are authorized to be transferred between departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the District's legislative body.

D. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The District's deposits and investments are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1000 and an estimated useful life in excess of 1 year. The capital assets of the District are recorded as expenditures when purchased.

G. Compensated Absences

Vacation leave for non-union employees is earned at a rate dependent upon years of service and hours worked. Vacation leave may be accumulated up to 220 hours, unless specified in a formal working agreement, and is payable upon separation or retirement.

Vacation and holiday leave for union employees may be accumulated up to 312 and 120 hours respectively. Accrued vacation balances include holiday leave. Accrued vacation and holiday are paid out upon separation or retirement. Vacation leave for union employees is earned according to the union's contractual agreement. Vacation leave is based upon years of service.

Sick leave for non-union employees is earned at a rate dependent upon hours worked and may be accumulated up to 400 hours, unless specified in a formal working agreement.

Sick leave for non-union employees who work under an individual work agreement may be accumulated up to 1080 hours. Upon separation employees receive payment for one-third of their unused sick leave.

Sick leave for union employees is earned according to the union's contractual agreement and is based upon hours worked. Union employees can accrue up to 1080 hours of sick leave. They can cash out one-third of their accrued sick leave upon retirement.

Sick leave may be used for paid time off for injury or illness of the employee and/or any dependent.

The District's estimated liability for sick and vacation leave termination benefits on December 31, 2012 was \$420,757.

H Long-Term Debt See Note 5, *Debt Service Requirements*

I Other Financing Sources or Uses

The District's *Other Financing Sources or Uses* consist of operating transfers in, operating transfers out, one-time sale of surplus property and equipment, proceeds from a contractual dispute that was settled in the district's favor, and general obligation bond proceeds.

J Risk Management

Policy holders pay an annual premium to Volunteer Fireman's Insurance Services (VFIS), in lieu of a membership assessment. VFIS is responsible for payment of all covered causes of loss against the District above the stated deductible, if any. Portable equipment and real and personal property are covered at either actual cash value, replacement cost or guaranteed replacement cost. VFIS provides general, automobile and management liability on an "occurrence" and/or "claims-made" basis, subject to a "follow form" umbrella, if elected. The most common sub-limit of liability starts at \$1M, while aggregate limits may reach as high as \$20M.

On January 1, 2011 the District changed their medical insurance to a self insured plan to try to combat the rising costs of healthcare. The District opted to contract with Coastal Administrative Service Inc. as a third party administrator to provide benefits that are a part of the First Choice Health Network and self-insured dental. C.A.S provides claim adjudication for all claims and is HIPPA complaint. Reinsurance and stop-loss contracts are in place to protect the District from large claims. This plan provides medical, dental and vision to all full time employees. At this time the District covers 100% of the cost. Based on the number of employees, the District transfers a set amount of money each month into a separate healthcare fund. Only medical expenses are paid out of this fund.

K. Reserved Fund Balance

In 2012, the District has a total of \$68,881 in reserved fund balances. The balance of Fund 201, \$62,506, is reserved by bond obligations. \$6,375 in Fund 301 is reserved by resolution for capital improvements.

NOTE 2 - INVESTMENTS

The District's investments are either insured, registered or held by the District or its agent in the District's name.

Investments are presented at fair market value.

Investments by type at December 31, 2012 were as follows:

Type of Investment	Balance
LGIP	\$ <u>467,000</u>
Total	\$ 467,000

NOTE 3 - PROPERTY TAX

The County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's regular Fire Protection Levy for the year 2012 was \$ 1.0126388827 per \$1,000 on an assessed valuation of \$3,056,377,681 for a total regular levy of 3,095,006.

The District's regular Emergency Medical Services levy for the year 2012 was \$ 0.50 per \$1,000 on an assessed valuation of \$3,259,627,820 for a total regular levy of \$ 1,629,813.

NOTE 4 – LONG TERM DEBT

The accompanying Schedule of Long Term Debt (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District's Debt transactions for the year ended December 31, 2012.

The debt service requirements for general obligation bonds and other debt including both principal and interest are as follows:

	<u>General Obligation Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2012	\$ 657,242	\$ 121,753	\$ 778,996
2013	\$ 686,167	\$ 88,390	\$ 774,557
2014	\$ 718,537	\$ 88,390	\$ 806,927
2015	\$ 744,105	\$ 37,433	\$ 781,538
2016	\$ 777,480	\$ 37,433	\$ 814,913
2017	\$ 433,257	\$ 0	\$ 433,257
2018-2023	\$ 648,800	\$ 0	\$ 5,648,800
2024-2029	\$ 5,071,389	\$ 0	\$ 5,071,389
Totals	\$ 14,736,979	\$ 373,400	\$ 15,110,380

NOTE 5 - PENSION PLANS

Substantially all of the District's full-time employees participate in the Washington State Law Enforcement and Firefighters Plan II, administered by the Department of Retirement System under a cost sharing multiple-employer public employee defined benefit retirement system. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the system by both employee and the employer are based upon gross wages covered by plan benefits.

All other full-time and qualifying part-time employees participate in the Washington State Public Employees Retirement System, Plan II or III administered by the Washington State Department of Retirement System under a cost sharing multiple-employer public employee defined benefit retirement system. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the system by both the employee and the employer are based upon gross wages covered by the plan benefits.

Historical trend or other information regarding each plan is presented in the State of Washington Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department Of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

The District has approximately 32 volunteer firefighters enrolled in the Washington State Volunteer Fire Fighters' And Reserve Officers' Relief and Pensions program, administered by the State Board for Volunteer Firefighters and Reserve Officers under Chapter 41.24 of the Revised Code of Washington. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to this pension system are made by the employer on an annual basis.

NOTE 6: OTHER DISCLOSURES

Terry's Corner Fire Station

In November 2010 the District was awarded a grant in the amount of \$449,069 from the U.S. Department of Homeland Security Federal Emergency Management Agency (FEMA) through the State of Washington for seismic upgrade capital improvements to the Terry's Corner Fire Station.

In November 2011, FEMA revoked the grant. Upon the District's appeal of the revocation, FEMA offered a revised grant award of \$96,244. In its second appeal, the District requested approval of the remaining eligible cost reimbursements totaling \$352,825. The second appeal is currently under review with FEMA. The State of Washington granting agency supports the District's position.

The District incurred eligible cost reimbursements under this grant of \$155,256 in 2012 and \$383,606 in 2011. In 2012 the District issued a non-voted bond of \$500,000. These funds were used to complete the capital improvements to the Terry's Corner Fire Station while the FEMA grant is in appeal. Semi-annual principal and interest payments of \$24,015 commenced on June 1, 2012 and will continue through 2024.

The Terry's Corner Fire Station seismic upgrade and remodel was completed and the District re-housed personnel in the Station on March 31, 2012. The station is now fully operational.

Interlocal Agreements

The District has the following Interlocal Agreements in operation at the end of 2012.

- The District has an Emergency Manager Agreement with Island County. The District provides an Emergency Manager to assist with the County's emergency events and planning. The costs for the manager are partially paid by an indirect federal grant from the Department of Homeland Security. This agreement is in effect until February 28, 2013.

All Interlocal Agreements with the City of Stanwood expired on March 31, 2012 with the exception of the Emergency Management interlocal that expired on December 31, 2012.

Other

Contractual dispute proceeds referenced in *Other Financing Sources or Uses* was from a claim for reimbursement of costs associated with a construction feasibility study for the District's fire station and headquarters located in Terry's Corner on Camano Island. The dispute was settled in 2012 and all settlement funds have been received.

It is the District's policy to invest all temporary cash surpluses, however at 12/31/12, due to timing of expiring investments, the District had higher than usual cash balances which were subsequently invested per District policy.

The District purchases auto parts, shop consumables, and inventory from Stanwood Auto Parts, a local supplier. Stanwood Auto Parts is owned by District Commissioner Mike Hamel. Expenditures are monitored, and capped at a maximum of \$1,500.00 per month.

Compensated Absences at 12/31/2012 on Schedule 9 were updated by District staff after consultation with the state's auditor during the on-site audit. When the Schedule was originally filed, the ending balance was \$315,678. After the revision it was \$283,663.

Island County Fire Protection District No. 1

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	251.11	2007 HME Fire Engine	12/1/2016	135,453	0	32,171	103,282
	251.11	2009 Northstar Ambulance	12/12/2014	98,317	0	48,450	49,867
	251.11	General Obligation Bonds- 3	12/1/2024	462,807	0	36,688	426,119
	251.12	General Obligation Bonds- 1	12/1/2027	4,715,000	0	110,000	4,605,000
	251.12	General Obligation Bonds- 2	12/1/2028	4,680,000	0	105,000	4,575,000
	259.11	Compensated Absences	12/31/2012	420,757	0	208,021	212,736
		Total General Obligations:		10,512,334	0	540,330	9,972,004
		Total Liabilities:		10,512,334	0	540,330	9,972,004

Island County Fire Protection District No. 1

Schedule of Liabilities
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
General Obligations							
	251.11	Property Purchase	12/15/2012	32,000	0	32,000	0
	251.11	2007 HME Fire Engine	12/1/2016	166,349	0	30,896	135,453
	251.11	2009 Northstar Ambulance	12/12/2014	145,390	0	47,073	98,317
	251.11	General Obligation Bonds- 3	12/1/2024	0	500,000	37,193	462,807
	251.12	General Obligation Bonds- 1	12/1/2027	4,805,000	0	90,000	4,715,000
	251.12	General Obligation Bonds-2	12/1/2028	4,770,000	0	90,000	4,680,000
	259.11	Compensated Absences	12/31/2012	283,663	137,094	0	420,757
Total General Obligations:				10,202,402	637,094	327,162	10,512,334
Total Liabilities:				10,202,402	637,094	327,162	10,512,334

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov